

## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** November 27, 2007

**SUBJECT:** **November 21, 2007 Audit Committee Meeting**

In Attendance:

Jon Strinden, via conference call  
Ron Leingang  
Rebecca Dorwart  
Jamie Kinsella  
Sharon Schiermeister  
Sparb Collins  
Pat Brown, Brady Martz  
John Schell, Brady Martz  
John Mongeon, Brady Martz  
Aaron Webb, Attorney General's Office

The meeting was called to order at 10:35 a.m.

**I. August 22, 2007 Audit Committee Minutes**

The audit committee minutes were examined and approved by the Audit Committee.

**II. Internal Audit Quarterly Report**

- A. Internal Audit Quarterly Report – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status as of October 31, 2007.

Quarterly Audit Recommendation Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit recommendations of the external auditors, as well as any found by the internal auditor. The recommendations made by Brady Martz & Associates will be placed on the report once the final audit report is issued. A review of the report shows a total of twelve recommendations, of which none were 100% implemented this quarter, but progress was made on two.

### III. Administrative

- A. Audit Committee Self-Assessment Questionnaire – Included with the audit committee materials were the results of the self-assessment questionnaire the audit committee completed. Ms. Kinsella indicated she did not get a response from two of the committee members. In addition to the Yes/No/NA answers, each question was to be rated 1 to 5, or highly effective to not effective. Because the questionnaire was not revised prior to completing the questionnaire, this component was not filled in by the respondents. The audit committee may want to consider whether they would like to redo the questionnaire or leave it as it is for now and wait until next year. A review found the audit committee felt it is following most of the best practices. Of the 55 questions, 30 were answered yes, or 71%. However, there is room for improvement, one of which is helping the audit committee understand how they are meeting some of these requirements. Ms. Kinsella conveyed in this material she include the statements that had mixed responses, “No” response, or N/A. After each statement, there is a comment as to how she felt the audit committee was meeting the requirements or a proposed plan of action of which can be done to make sure the requirements are met. Discussion followed. The audit committee decided to eliminate this process, and only do the Charter Review Matrix annually.
- B. Audit Committee Charter Review Matrix – The Audit Committee charter was revised in June 2006, reflecting the best practices for audit committees at that time. The revised Audit Committee charter states that it will “17. Confirm annually that all responsibilities outlined in this charter have been carried out. Report annually to the Board, members, retirees and beneficiaries, describing the committee’s composition, responsibilities and how they were discharged and any other information require by rule, including approval of non-audit services.”

To meet this requirement a matrix was developed to review against current practices to ensure that the audit committee is meeting its responsibilities. Included with the audit committee materials was the matrix.

There were few issues the audit committee needed to review and take action on. The first was regarding item #2 “the audit committee attempt to appoint committee members who are knowledgeable and experienced in financial materials, including the review of financial statements”. Mr. Strinden and Ms. Dorwart were appointed.

The second item regarding bullet #9 “Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement”. Since interim financial information is not prepared, discussion followed. The audit committee decided to query other public pension fund auditors and ask them if they follow this practice. If not, then the audit committee will determine if they want to eliminate this from the charter.

The third item discussed was risk assessment. The second bullet for item #10 states that the audit committee will “Periodically review that the organization has a comprehensive policy on risk management”. NDPERS does not have a formal risk assessment policy, but currently are following Risk Management’s guidelines for a Loss Control Committee, and putting together a Continuum of Government (COG) plan. The audit committee decided to have Internal Audit contact Risk Management to discuss whether a policy is needed, or if they have one that all state agencies should follow. In addition, if OMB has a policy NDPERS can make it a policy to follow OMB’s guidelines, much as it does for other policies, such as travel expenditures.

Finally, the last item under #13, ninth bullet states “Provide guidelines and mechanisms so that no member of the audit committee or organization staff shall improperly influence the auditors or the firm engaged to perform audit services.” The audit committee decided to have internal audit investigate further by discussing with the State Auditor’s Office and reviewing the RFP and contract with the current external auditors to determine if there is language regarding conflict of interest.

The last three items will be brought before the audit committee in February.

- C. NDPERS Risk Assessment Process - Included with the audit committee materials was an example of the risk assessment questionnaire that is given to the managers to fill out as part of their analysis of risk in their areas. Once management has filled out the questionnaire for each area for which they are responsible, Internal Audit reviews the responses and enter the data into a matrix by divisions to determine the level of risk as determined by a weighted formula. The previous matrix’s weighted scores are entered for comparison purposes. Another report is generated, sorting the weighted score is descending order for the Executive Director to review. The original report is shared with management to ensure the output reflects their opinions. Once management agrees with the report, and the future audits agreed upon, the Internal Audit Plan for 2008 is developed.
- D. Annual Audit Plan for 2008 – Included with the audit committee materials was a copy of the Annual Internal Audit Plan for 2008 for review and approval. After the audit projects are decided upon these will be incorporated into the audit plan document. The final copy will be signed by Mr. Strinden and Ms. Kinsella. The audit committee approved the Annual Audit Plan for 2008.
- E. Audit Committee Meeting Date & Time - Ms. Kinsella compiled a schedule of the proposed 2008 audit committee meeting dates and times. The audit committee approved the 2008 meeting schedule.
- F. Internal Audit I Reclassification – Ms. Kinsella informed the audit committee that Mr. Heick’s position was reclassified from a Audit I to an Auditor II effective September 1, 1007. This is a grade change from a Grade 9 to Grade 11.

#### IV. Miscellaneous

- A. Update on NDPERS Accounting Staff Status – Included with the audit committee materials was an update on the accounting staffing status since the last audit committee meeting.
- B. Report on Consultant Fees – According to the Audit Committee Charter, the Audit Committee should “periodically review a report of all costs and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed upon procedures and any non-audit services provided.” Included with the audit committee materials was a copy of the report showing the consulting, investment and administrative fees paid during the quarter ended September 30, 2007. Ms. Kinsella indicated that at this time the fees paid to Brady Martz consist of financial statement audit fees only.
- C. Administrative Rule Changes - According to the Audit Committee Charter, the Audit Committee should “Monitor changes and proposed changes in laws, regulations and rules affecting the organization.” Administrative rule changes are provided to the board for their approval before putting out a notice of the hearing. Included with the audit committee materials was a report presented and approved by the board at the September 2007 meeting. The public hearing was held on November 21, 2007.
- D. Pharmacy Benefits Manager (PBM) Project – Attachments were provided to the audit committee, including BCBS’s letter from their attorney received the day before the audit committee meeting. Mr. Webb, Attorney General’s Office, was present at the meeting to provide information. Discussion followed. Mr. Webb explained that in order to obtain an Attorney General’s opinion of what BCBS documents NDPERS will keep confidential, that list must be a narrow, finite number of documents. Ms. Dorwart expressed concern over accepting the SAS 70, since there are two levels of reporting, one that is at a high level overview, and the second that is more in-depth. If we accept the SAS 70, and it is just a high level overview, then it will not provide enough information. The audit committee decided to draft a letter for an Attorney General’s opinion, and provide a report at the February meeting.
- E. LASR Project Status – The LASR project completed its Post-Implementation Report and submitted it to ITD at the end of Phase III of the LASR project. Ms. Kinsella conveyed staff has been very pleased with the results. Phase IV officially began on October 1, 2007. Ms. Schiermeister is the Project Manager for NDPERS. The Internal Audit Division will receive updates when Ms. Schiermeister updates the managers at the weekly manager’s meeting. There was a kickoff meeting on November 13, 2007 and a Development Methodology Overview will be conducted on November 26, 28 and December 4. This meeting will introduce to staff the methodology used to develop the software. It will also inform the staff what their role will be during this process. Ms. Schiermeister inquired how the audit committee would like to be kept informed of the project. By general consensus, the audit committee decided the same report to the Board presented at the next audit committee meeting is adequate.

- G. Brady Martz & Associates – Brady Martz presented their FY 2007 audit report to the audit committee. A copy of the audit report was included in the audit committee materials.

Brady Martz explained that they did not identify any deficiencies in internal control over financial reporting; however there were certain matters that were reported to NDPERS management. There was no audit adjustments proposed or made that had a material or significant impact on the financial statements. Finally Brady Martz explained that they had not come to a conclusion on how PERS should recognize the implicit subsidy for the retiree health credit, however, there has been an actuarial review and an actuarial figure has been provided, which is good for two years for GASB 45. Discussion followed. Ms. Dorwart asked if the auditors could prioritize the six items in the management letter. It was determined that items #2, 3 and 4 were higher risk than the others.

The meeting adjourned at 12:05 p.m.